Knowing is the First Step

BUSINESS PLAN

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This is a business plan. It does not imply an offering of securities.

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OUR VALUE PROPOSITION

To develop and market simple, cost-effective
diagnostic products for the unmet need of
***early* prostate cancer detection;**
apply our technology to other platforms including
drug discovery, imaging, and therapeutics.

Executive Summary

A Potential Breakthrough in Prostate Cancer Detection

Tessera Diagnostics has an option agreement for an exclusive license to use new, patented diagnostic technologies that could revolutionize prostate cancer detection. Leading scientists from Johns Hopkins University's School of Medicine discovered these technologies. No other products exist to meet this diagnostic challenge.

The current tests for prostate disease, including the Digital Rectal Exam (DRE) and the Prostate Specific Antigen (PSA) assay, are unreliable in determining *early* prostate cancer. Detection of cancerous lesions often occurs too late for their easy and effective removal. By the time these tumors have metastasized to nearby glands and tissues, the prognosis for survival is bleak.

Tessera Diagnostics plans to use modern monoclonal antibody technology that allows for the sensitive detection of biological markers, signaling the presence of prostate cancer. These biological markers, termed 'Nuclear Matrix Proteins' (NMP), and the means to detect them, are described in four Johns Hopkins University issued patents.

Tessera Diagnostics' Xanthus™ Prostate Cancer Diagnostic Kit would be the first diagnostic tool available on the market using a simple urine or blood sample to provide fast and highly accurate results. Providing an alternative to embarrassing and uncomfortable rectal exams would greatly increase the odds than many more men would be tested, resulting in early detection, and providing men the knowledge needed to make intelligent choices about the treatment of their disease before it is too late.

Beyond Diagnostics

In addition to the large diagnostic market opportunity, the Company's technology allows for a significant revenue stream utilizing other platforms. These include:

***Drug Discovery*:** Many of the world's leading pharmaceutical and biotechnology companies are using known genes to discover new drugs for various disease applications. Being the exclusive licensee of Johns Hopkins University's NMP technology, only Tessera Diagnostics can allow other companies to test their drug products to see how they affect NMP related prostate specific genes.

***Imaging Technology Partnerships**:* The Company's proprietary prostate cancer markers, especially PC-1, can be used with newly developed imaging technology to more accurately detect the initial presence or the recurrence of cancer in prostates. This allows for more accurate excision of small tumors without the need for the complete removal of the prostate gland.

Anti-Cancer Therapeutic Agent: PC-1 is an excellent candidate for use in combination with novel radioactive or other seed related technology by linking a toxic molecule to a monoclonal antibody to PC-1. This could result in a more accurate elimination of prostate cancer cells and reduction of damage to nearby cells and tissue.

The Company

Tessera Diagnostics is a privately held biotechnology company established to commercialize cancer diagnostic kits based on NMP technology, initially entering the early and recurring prostate cancer detection market. The Company was founded in 2000, when it negotiated an exclusive option agreement with Johns Hopkins University. Tessera Diagnostics now plans to raise $1,750,000 in equity capital to fund the development of its first diagnostic kit for prostate cancer.

The Market

All men will die with prostate cancer if they do not first succumb to another disease. The National Cancer Institute describes prostate cancer as the most common *malignant cancer* and the second leading cause of *cancer death* in American men. In 2000, approximately 180,400 new cases and 31,900 prostate cancer-related deaths occurred in the United States (2). It is also estimated that 9,000,000 men have small, cancerous prostate growths that go undetected for years.

One of the most important keys to treating cancer is early detection. Currently, PSA test results show 15 of every 100 men have elevated PSA levels, *but* 80% of these will be false positives, and only 20% will actually indicate the presence of cancer. This level of inaccuracy is still considered to be the 'gold standard' for detection in the industry. Yet, 25,000,000 tests are administered annually in the US with a cost of $65 - $150 per test, generating annual revenues as high as $3.75 billion. Worldwide, approximately 88 million men have PSA tests each year; bringing the total world market, assuming $65 per test, to over $5.6 billion.

The only test available to confirm prostate cancer is a sextant needle biopsy assay and it is not suitable for the detection of early prostate cancerous lesions, which are by nature small and more difficult to detect. The cost of this test averages $1,000, which equates to a $180,000,000 annual market for the 180,400 successfully diagnosed new cases in the US every year.

By providing a non-invasive, easy to administer, accurate urine test, Tessera believes that not only can it capture a large percentage of this market, but increase the market to include a large percentage of the 56% of men who do not get a prostate exam on an annual basis. If only 10% of American men aged 50 and above used the Xanthus™ Prostate Cancer Diagnostic Kit were that market would encompass 58+ million men, providing annual revenues of ~ $580 million with an average cost of $100 per test.

The Risk

As a technology platform development company working in a new, relatively unexplored area, it is difficult to specify a point at which clinical data will be sufficient to submit a 510(k) application to the FDA for the approval of the first diagnostic test. The FDA could deny this application, limiting the Company to a 'research use only ' product. However, the founder and the scientific advisors for the company believe that Tessera Diagnostics has a high probability of being correct about the appropriateness of NMP technology used for cancer markers, with prostate cancer as it's first target disease.

Findings

The foundation of the Company is built on findings that it believes justifies the further development and clinical testing of its products.

- Johns Hopkins University technologies may address additional markets including, but not limited to the detection of bladder, kidney, and other cancers.

- Xanthus™ Licensing Agreements can be negotiated with pharmaceutical and biotechnology companies beginning in 2002 to screen for effective prostate cancer drugs.

- The Company also will partner to develop microchip-based diagnostic products that will allow for faster results and high throughput.

- The Xanthus™ Prostate Cancer Research Kit generates revenues beginning in 2002 followed by the FDA approved Xanthus™ Prostate Cancer Diagnostic Kit for increased revenues in 2003.

- No similar product exists in the marketplace even though *early* prostate cancer detection is much needed. Introducing a fast, easy, and painless diagnostic test would increase the number of tests given each year, providing a market of $2 billion + domestically for Xanthus™ Prostate Cancer Kits

- Scientists have not found a cancer that does not have altered Nuclear Matrix Proteins.

- We have an exclusive option agreement for the Johns Hopkins Nuclear Matrix Protein technology that has 14 NMP's identifying normal, benign, and cancerous prostate. Four issued US patents protect these markers.

- One NMP, PC-1, specifically identifies prostate cancer.

- Two different NMP's for detecting bladder cancer from urine samples (Matritech: NASDAQ: NMPS) have been approved by the FDA for diagnostic applications.

- Major healthcare providers strongly support NMP technology for cancer detection: Kaiser Permanente, America's largest not-for-profit health maintenance organization, has endorsed Matritech Inc.'s NMP diagnostic assay for bladder cancer.

- The Company has an experienced management team with a strong commitment towards meeting its milestones and revenue targets and a track record of doing so.

While these findings do not prove that NMP technology will be 100% successful or will be accepted in the medical marketplace, taken together they suggest that further development of the Company's lead product, the Xanthus™ Prostate Cancer Diagnostic Kit, be continued and that the technology platform development expands to include therapeutic usage.

The Opportunity

It is reasonable to believe, based on the NMP technology that the Company could play a large role in cancer detection, with its first application being in the field of prostate cancer. This technology can also be readily applied towards drug discovery, cancer imaging and therapeutics.

PSA tests are given 25 million times annually in the US, including testing for recurrence of the cancer. For the year 2000, the US Census Bureau estimated approximately 58 million men are over the age of 40, the target population for testing. This means over 50% of men are not being tested for one reason or another, be it the embarrassment of the examination or lack of knowledge surrounding their vulnerability to the disease.

The Company believes that introducing a fast, easy, and painless diagnostic test would increase the number of tests given each year, providing an annual market of well over $2 billion domestically by the time the Xanthus™ Home Test is available in 2004. Worldwide, the market could grow to well over $ 5 billion.

The Business Plan

This Business Plan describes in some detail the background science, market, intellectual property, company structure, and financial projections that Tessera Diagnostics management and Board plan to use to focus the Company's activities. Because it is a forward-looking document, it may contain statements that involve a number of risks and uncertainties. Actual events or results may differ from the Company's expectations. In addition to the matters described in the Plan, future actions of the Food and Drug Administration and results from future clinical trials, as well as other factors, may affect the results achieved by the Company.

The Overview

Prostate Cancer

One of the most important keys to treating cancer is early detection (13). If detected too late, rapidly growing cancers often metastasize and result in a poor prognosis for an individual's survival. Prostate cancer is no exception.

Of the 58 million men over the age of 40 in the United States today, all are projected to die with prostate cancer if they do not first succumb to another disease. By 1997, it was estimated that one in eight men diagnosed would die (American Cancer Society).

The National Cancer Institute describes prostate cancer as the most common *malignant cancer* and the second leading cause of *cancer death* in American men. According to the SRIC, which developed a 1999 cancer study, prostate cancer in the U.S. will increase by 35 percent over the next 15 years.

In the US, 14% of the current U.S. population, or 38 million persons, is aged 65 or older. That number is projected to increase to approxinately 62 million by 2029. Approximately 6% of men above 50 years of age have clinically significant prostate cancer and this number rises to about 20% for men above age 75.

In 2000, approximately 180,400 new cases of prostate cancer were diagnosed and 31,900 prostate cancer-related deaths occurred in the United States. It is also estimated that 9,000,000 men have small, cancerous prostate growths that go undetected for years.

There is no simple urine or blood-based diagnostic for the early or recurring detection of prostate cancer, especially the aggressive, fast-growing type that is particularly lethal. The current tests for prostate disease, including the Digital Rectal Exam (DRE) and the Prostate Specific Antigen (PSA) assay are ineffective in determining early prostate cancer. Detection of cancerous lesions often occurs too late for effective treatment.

Discovery of Nuclear Matrix Proteins (NMP)

Nuclear Matrix Protein technology was discovered in the mid-1980s by two cell biologists at the Massachusetts Institute of Technology who reported how nuclear matrix proteins act as cancer markers. Nuclear matrix proteins are found in the nuclei of all cells. In cancer cells, NMPs either differ from those found in normal cells, or, in some cancer types, normal NMPs are present at elevated levels.

In 1993, cancer-specific NMPs were reported for prostate, breast, bone, and colon cancer. After many years of research by Drs. Donald Coffey, Alan Partin, and Robert Getzenberg from the Johns Hopkins University School of Medicine, a discovery was made regarding the connection between cancer cell growth in the prostate gland and certain NMP markers. This resulted in the issuance of four US patents: 5,824,490 issued on October 20, 1998; 5,849,509 issued December 15, 1998; 5,874,539 issued February 23, 1999; and 6,030,793 issued February 29, 2000. Their discovery points the way to a new approach for early and accurate prostate cancer diagnosis: Xanthus™ Prostate Cancer Diagnostic products that differentiate between normal, benign, and cancerous prostates.

Using Johns Hopkins University Technology to Diagnose Cancer

Professor Donald Coffey and his colleagues have identified a special set of fourteen Nuclear Matrix Proteins that identify normal, benign and cancerous prostates. The presence or absence of these prostate-specific NMPs can help tell about the health of a prostate. For example, one of the prostate NMPs, PC-1, is only present in prostates with cancer, and it is not present in normal or benign prostates. Identification of those men expressing PC-1 would help urologists to identify prostate cancer early, and would hopefully lead to earlier treatments to alleviate suffering and reduce loss of life. Even after surgery to remove a cancerous part of a prostate, it would be advisable to continue to monitor for this cancer marker.

The following table illustrates the expression pattern of the technology's Nuclear Matrix Protein (NMP) in normal, benign and cancerous prostates discovered by the Johns Hopkins researchers. Some NMPs are turned on only in normal tissue while others are expressed in normal and benign (non-cancerous) prostates. A few of the NMPs are turned on in benign and cancerous prostates, and one of them is only turned on in cancerous tissues: PC-1.

Nuclear Matrix Protein:	Normal	Benign	Cancer
1. NPB-1	✓	✓	✗
2. NPB-2	✓	✓	✗
3. NPB-3	✓	✓	✗
4. NPB-4	✓	✓	✗
5. NPB-5	✓	✓	✗
6. NPB-6	✓	✓	✗
7. NPB-7	✓	✓	✗
8. NP-1	✓	✗	✗
9. NP-2	✓	✗	✗
10. NP-3	✓	✗	✗
11. BPC-1	✗	✓	✓
12. BPC-2	✗	✓	✓
13. BPC-3	✗	✓	✓
14. PC-1	✗	✗	✓

LEGEND

NP = Normal Prostate
B = Benign Prostate Hyperplasia
PC = Cancer
✓ = Turned On
✗ = Turned Off

Formation of Tessera Diagnostics, Inc.

Tessera Diagnostics was incorporated in 2000 specifically as a biotechnology company to commercialize NMP technology, initially entering the early and recurring prostate cancer detection market, followed by applications in drug discovery, cancer imaging and therapeutics. The Company was founded by H. Raymond Cairncross, Robert V. Masterson and Melody Ulland (see Management & Board of Directors).

An option for an exclusive license with Johns Hopkins University was signed in November 2000, giving Tessera Diagnostics exclusive license to the technology as defined in the four issued patents as well as any U.S. patent applications derived, in whole or in part, from the technology and all continuations, divisions and reissues based thereof, and any corresponding foreign patent applications, including International PCT Application(s).

In order for this license to stay in effect, Tessera must meet the final milestone in the option agreement by showing an initial investment of $1,000,000.

Funding

The Company is in the process of raising an initial $1,750,000 in capital via private placement. This funding will allow the company to achieve the following milestones during the first twelve months of funding:

- Hire Scientific and Management Teams
- Validate NMP technology
- Prepare for 510(k) Application with the FDA
- Monoclonal anti-body manufacturing
- Negotiate contracts for Xanthus™ Prostate Cancer Research Kits
- Purchase and lease necessary equipment
- Continue payments for patent and legal fees
- Deliver a Xanthus™ Prostate Cancer Research Kit to the research market in 2002

The next capital round needed will be in early 2002 for approximately $7 million. This will allow the company to proceed through the 510(k) application process with the FDA and bring the Xanthus™ Prostate Cancer Diagnostic Kit to market in 2003. Revenues from these products will allow for the continued expansion of the Company's technology platform, as will licensing and partnership arrangements with pharmaceutical and biotech companies in the therapeutics arena.

The financial forecast is in *Appendix A*.

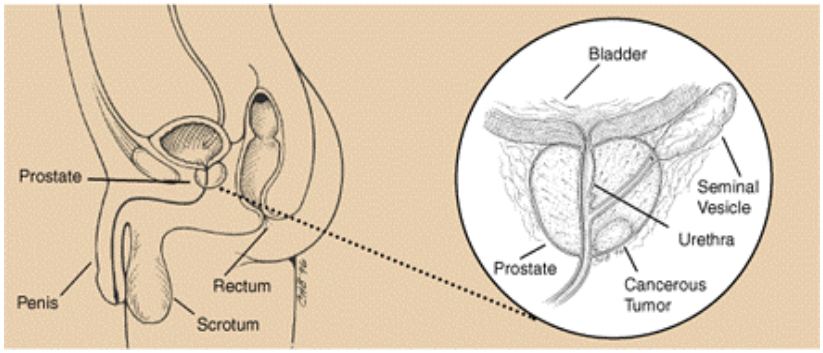
The Technology

Background Science

Men need the prostate gland to continuously produce seminal fluid. This poses two problems.

- High turnover in cells produced over a lifetime lead to more chances for cancerous mutations
- The prostate gland is prone to benign growth and metastatic cancer
- The prostate gland's location does not allow for the easy detection of small cancerous growths.

The figure below shows a cancer growing on a prostate gland (from the American Cancer Association).



The prostate gland is about the size of a walnut and is located in front of the rectum, behind the base of the penis, and under the bladder. It produces some of the seminal fluid, which protects and nourishes sperm cells.

The Digital Rectal Exam (DRE) and the Prostate Specific Antigen (PSA) assay are widely used as the broad screen diagnostics. Even though men over 40 years of age usually have a DRE as a part of their annual physical examination, these tests are unreliable in determining an important parameter in prostate health: detecting cancer at the earliest possible stage.

The DRE involves a physician literally feeling the prostate gland with an index finger. This test is highly subjective and is not at all sensitive or appropriate to detect a cancerous growth unless it is located in the lower (rectal) position of the prostate. Even then, such cancerous lesions must be sufficiently large to allow detection through latex gloves. It is important to note that even with an annual DRE, only 20% of cases are localized at diagnosis (15), and that 25% of metastatic prostates were undiagnosed by a normal prostate exam (14).

If the physician feels a lump during the DRE, then a PSA assay is ordered. This requires a simple blood draw followed by a laboratory test to determine how much PSA is in the bloodstream. As seen in the following table, by the time a DRE detects a tumor large enough to feel, a man is usually diagnosed with a medium to high probability of having prostate cancer.

CHANCE OF PROSTATE CANCER:

	PSA Blood Level		
Digital Rectal Exam	0-4 ng/ml	4-10 ng/ml	>10 ng/ml
Normal	Low	**Medium**	**High**
Abnormal*	**Medium**	**High**	**High**

*A lump or hard area in the prostate. (American Foundation for Urological Disease, 2000)

The PSA assay is the current 'gold standard' test used to detect abnormal amounts of a prostate-related protein (3, 11). Millions of men with enlarged prostates receive this test each year. Low blood levels of PSA indicate a low likelihood of prostate cancer, while higher amounts may suggest prostate cancer (16).

However, PSA levels are not reliable indicators of prostate cancer because the relationship between PSA and prostate cancer is not often correlated (1). That is, a man may display high concentrations of PSA in his bloodstream and not have prostate cancer, while another man may have low PSA levels and yet have a cancerous prostate (5, 9).

If prostate cancer is suspected, a pathologist takes biopsies for cancer analysis. This sextant needle biopsy assay is the only test available to confirm prostate cancer. Urologists rely on five-inch long needles that repeatedly draw core samples from suspect prostates in order to tell if cancer is present in men with high PSA levels (4). This is a painful and expensive procedure that requires the services of an urologist to draw the six needle biopsy samples (over $400 in the Seattle area) and approximately $600 for the pathology examination (Dynacare Laboratory, Seattle, WA).

The sextant needle biopsy is not suitable for the detection of early prostate cancerous lesions. This is analogous to sticking a long needle through six different areas of an apricot. If a tumor is present, and is about the size of a pit, then a needle passing though it will retrieve a core sample of cancerous tissue. Such large tumors may have already metastasized to nearby tissues outside of the prostate. If the tumor is very small, then it is unlikely a needle will pass though it. The results often take one to three weeks to obtain, adding further stress to finding out whether prostate cancer is present or absent. This is where the Company's technology is ideal for detecting all sizes of prostate tumors, including those that may go undetected by needle biopsies, PSA tests and DRE.

While many prostate cancers are slow growing, another type grows rapidly and leads to metastasis that can quickly spread beyond the prostate. If these are identified too late, even treatment with radiation and chemotherapy is usually ineffective.

Nuclear Matrix Proteins & Cancer Diagnostics

The Company's technology relies on using monoclonal antibodies to identify specific NMPs that are expressed in normal, benign or cancerous prostates. This class of proteins is physically located in the nucleus of human cells. Many different cancers have been found to have altered NMP expression that is correlated with the occurrence of cancer (6).

Nuclear Matrix Proteins Identified in Urine of Bladder Cancer Patients

Two different NMPs have been found to work well for detecting bladder cancer from urine samples. First, BLCA-4 has been found to be clinically useful in detecting bladder cancer in otherwise normal individuals and may be predictive in those individuals with spinal cord injury. The sensitivity (96.4%) and specificity (100%) of the BLCA-4 makes it an ideal marker for detecting bladder cancer in urine (6, 7).

A second NMP useful for identifying bladder cancer in urine is NMP22 (8). This NMP-based test was found to be superior to telomerase and bladder tumor antigen (cell surface) in terms of sensitivity and specificity.

FDA 510(k) Approval of Nuclear Matrix Proteins For Cancer Diagnostics

The FDA has approved the use of a NMP diagnostic test for bladder cancer diagnostics. Matritech, Inc., (NASDAQ: NMPS) gained FDA 510(k) approval in 1996 for using NMP22 to detect the *recurrence* of bladder cancer in urine. During 2000, they obtained FDA 510(k) approval for the use of NMP22 for urine-based bladder cancer *diagnostics* applications.

The Company views prior FDA 510(k) approval for a NMP for cancer recurrence and diagnostics as positive. Information regarding how Matritech got approval is being secured via a Freedom of Information request. Typically, an FDA 510(k) approval time for a product similar to a Nuclear Matrix Protein for cancer diagnostics is 6 – 9 months and not the 7+ years required for FDA approvals for drugs.

Technical Description of a Xanthus™ Prostate Cancer Diagnostic Kit

The Company's new prostate cancer technology will be used to develop the Xanthus™ Prostate Cancer Diagnostic Kit, allowing for the early detection of a prostate metastatic marker, PC-1, in urine or blood samples. Unlike the PSA test, PC-1 is an ideal prostate cancer marker because it is *only* present in prostates that contain metastatic cancer cells. Normal and benign prostates do not contain PC-1.

In contrast, PSA is present in prostates with normal, benign, and metastatic cancer cells. Xanthus™ will be suitable for clinical laboratory assays, be cost-effective, and may be repeated often without side effects. No needle biopsies or long waiting times are required.

In addition to PC-1, the Johns Hopkins University technology includes other biological markers for normal, benign, and cancerous prostates. These, and possibly other markers, may be used to extend the Company's product line in the detection of prostate, bladder, kidney, and other cancers.

The Xanthus™ kit will contain a monoclonal antibody (MAb) to the PC-1 protein that allows the detection of its presence. Diagnostic kits using MAbs allow for a variety of different detection systems such as the ELISA type diagnostic test in a 96 well format. The Company will use this format in conjunction with a microtiter plate reader (490 nm), providing the standard enzyme immunoassay technology commonly used by clinical and research laboratories.

The entire medical diagnostics industry is evolving from pure biological and chemical reaction technology to new advances in Micro-Electro-Mechanical Systems (MEMS) that allows novel applications in this field. The Company's technology is ideal for use with MEMS. Another possible application includes increasing the efficiency of large-scale prostate cancer screening.

Other Potential Applications

The combination of protein and nucleic acid based diagnostic technology associated with the PC-1 marker allows for other opportunities (outlined below) that the Company will actively pursue when its Xanthus™ kits have reached the medical marketplace, enhancing our lead position in the prostate cancer diagnostics arena and propelling Tessera into other lucrative markets.

- *Drug Discovery*: Form strategic alliances with pharmaceutical companies to test their drug candidates against its proprietary NMP prostate cancer specific genes. The use of the PC-1 gene and messenger RNA, in combination with a library of random drugs, would greatly speed the drug discovery process.

Many of the world's leading pharmaceutical and biotechnology companies are using known genes to discover new drugs for various disease applications. Since the Company will be the exclusive licensee of Johns Hopkins University's NMP technology, only it can allow other companies to test their drug products to see how they affect NMP-related prostate specific genes.

For example, Merck may want to test from one-to-ten thousand drug compounds to determine if any of them directly affect one of Tessera's proprietary NMP prostate genes, such as PC-1. The discovery of one or more compounds that turns *off* the PC-1 gene could possibly be used to slow or stop cancer growth.

- *Imaging Technology Partnerships:* The Company's proprietary prostate cancer markers, especially PC-1, can be used with newly developed imaging technology to more accurately detect the initial presence or the recurrence of cancer in prostates. Combining these technologies would reveal the exact location of new or recurring cancer cells in the prostate. This allows for more accurate excision of small tumors without the need for the complete removal of the prostate gland.

- *Anti-Cancer Therapeutic Agent:* PC-1 is an excellent candidate for use in combination with novel radioactive or other seed-related technology by linking a radioactive molecule to a monoclonal antibody to PC-1. Since prostate cancer cells only express PC-1, this combination could be delivered, perhaps by injection, directly to the prostate. The PC-1 monoclonal antibody would then home in on cells expressing PC-1, delivering the radioactive compound. The result is a more accurate elimination of prostate cancer cells and reduction of damage to nearby cells and tissue.

The Market

Introduction

One of the key markets for the Company's Xanthus™ Prostate Cancer Diagnostic products are those men who have higher than normal PSA levels after a routine physical. Instead of proceeding directly to a needle biopsy, a simple urine sample used with the Xanthus™ prostate cancer diagnostic test can be conducted immediately. The Company expects the Xanthus™ test to be done routinely along with the PSA test, and with the medical community's acceptance, be the exclusive prostate cancer early detection system of choice.

Another key market are those men who have had prostate cancer surgery and need to know if the cancer is in remittance or has recurred.

The medical costs of prostate cancer in the United States are estimated to be approximately $5 billion in 1997, and it is estimated that the incidence of prostate cancer in the U.S. will increase by 35 percent over the next 15 years.

In order to decrease these costs, we must be able to accurately detect prostate cancer at the earliest stage possible.

There are three reasons why more cases of prostate cancer are not detected:

- Tests such as DRE and the PSA that test with sensitivities for detecting cancer of 20 percent and 31.5 percent respectively, often miss the cancer completely until it is quite advanced.

- It is not the policy of Medicare and many other healthcare providers to encourage testing early before the patient has symptoms associated with advanced cancer because most tests

are not effective enough to warrant widespread use in men over age 40 to 50. It is often considered politically correct to strive to control the cost of healthcare, even if the end result is to show zero improvement or deterioration of mortality and morbidity statistics for the male population as a whole.

- The focus of medical research in the case of prostate cancer detection can be characterized as the "silver bullet" approach to find a single genetic or biochemical marker of this disease. Despite spending of hundreds of millions of dollars on such research efforts over the past 40 years, mortality statistics have not improved.

It is clearly time that steps be taken to ensure that men who have this disease are recognized and diagnosed early, before it is fatal.

Competitive Technologies

Tessera Diagnostics does not have a direct competitor in the medical marketplace for its unique prostate cancer NMP detection technology. The standard diagnostic tools are the DRE, PSA tests and the needle biopsy.

Matritech (NASDAQ: NMPS) is marketing an NMP22 Bladder Cancer Test Kit. This represents a target market of over $one billion. The company has received endorsements from sources such as the Journal of Urology that has reported that the NMP22 Test Kit was 100% sensitive in identifying clinical trial patients, who had the invasive form of disease. Other hospitals report similar results and along with the company's pre-clinical and clinical tests results in the fields of cervical, breast, and colon cancer, they believe nuclear matrix proteins will be seen as the most reliable cancer markers ever discovered.

Sales of the Matritech product for recurring bladder cancer began in late 1999 to major medical facilities such as the Mayo Clinic and Kaiser Permanente, the world's largest HMO. The kits have now been marketed to the major national reference labs including Laboratory Corporation of America, SmithKline Beecham Clinical Labs, and Quest.

The FDA then gave 510(k) approval to use the kits as a diagnostic tool, boosting their domestic sales to $800,000+ in the first half of 2000, with an average unit price for each kit of $895. They have also hired an international sales team for China, Japan, and Europe, where they have already received the appropriate governmental approvals to use the kits for screening purposes.

Horus Global HealthNet has developed a prostate cancer test for recurring cancer only that is used in conjunction with the PSA test, Their product uses a group of biochemical markers taken from human serum and processes them with highly trained neural networks to detect the probability of cancer about 80 percent of the time. The test, ProstAsure, is available for $75, and can be ordered online from the Horus web page. ProstAsure is a blood test capable of discerning discreet changes in biochemical activity among groups of highly relevant biomarkers, including the commonly used PSA, as well as two other markers, which are released into the bloodstream when a tumor invades the healthy prostate.

Intergen, Inc, announced that it has obtained a worldwide exclusive license to a U.S. patent for genetic diagnosis of prostate cancer. Scientists have demonstrated that loss of expression of the Glutathione-S-Transferase gene (GSTP1) is a very early genetic change in the development of prostate cancer. The loss of expression is due to aberrant methylation of the GSTP1 gene promoter region. Stephen Turner, Oncor, said, "There is an urgent need for better clinical tools to aid in prostate cancer management. The specificity of GSTP1 methylation in prostate cancer makes it an excellent biomarker for this disease. When combined with Oncor's proprietary methylation detection technology, the test should have application in all stages of prostate cancer management."

Cytogen Corp. announced the signing of two separate licensing agreements. The agreements involve the Prostate Specific Membrane Antigen (PSMA) technology, and the licensing of the *in vitro* diagnostic use of the monoclonal antibody used in the company's prostate cancer imaging agent, ProstaScint. Prodrugs have been designed to have low toxicity in the body except when in the vicinity of prostate cancer cells.

Strengths of Xanthus™ Prostate Cancer Diagnostic Products

No other similar technology exists today in the medical marketplace. The Xanthus™ Prostate Cancer products are derived from world-class medical research conducted by leading urologists from Johns Hopkins University. The 14 prostate-specific NMP markers indicate the relative health of normal, benign and cancerous prostates. The discovery of one of these markers, PC-1, offers a new means of detecting early prostate cancer.

Four issued patents, with a fifth soon to be issued, protect these NMP markers, further strengthening the core technology. These patents allow for the detection of the specific NMPs by polyclonal and monoclonal antibodies. Claims regarding the gene for PC-1 are also included in the fifth patent. This will also allow for further advances in the imaging of prostate cancer, the screening of potential new drugs, and the therapeutic treatment of prostate cancer.

Xanthus™ Prostate Cancer diagnostic products also are differentiated from the current PSA and needle biopsy market by:

- Ease of use -- urine or blood samples
- Non-invasive -- no needle biopsies
- Fast results -- possible in hours

Marketing Strategy

Pricing

The Company's overall marketing strategy will be to maximize profit while encouraging rapid penetration of the prostate cancer diagnostic market. Final pricing will be set after competitive studies have further evaluated value in comparison with the other tools on the market and their effectiveness.

However, the market forecast for a Xanthus™ Prostate Cancer Diagnostic Kit uses a price of $65 per use. PSA tests cost up to $150 and needle biopsies can run as high as $1,100. Given the costs of the other tests available, this is a conservative pricing assumption.

Distribution in the United States

Tessera Diagnostics' current plan is to promote and distribute the products by entering in to one or more co-marketing arrangements with firms whose existing sales forces are skilled in detailing and distributing diagnostic kits. This will allow the Company to quickly penetrate key centers without the high costs and long lead times of building a sales force.

This strategy will be reviewed as product launch nears. Management will remain open to developing other distribution strategies if they will lead to greater profitability.

Distribution Outside of the United States

The Company expects to license its technology outside of the United States to established firms. A minimum of three licenses is anticipated: one for Europe, one for Japan, and one for Australia.

Intellectual Property

License from Johns Hopkins University

The option agreement entered into in November 2000, gives Tessera Diagnostics exclusive license to the technology as defined in the four issued patents as well as any U.S. patent applications derived, in whole or in part, from the technology and all continuations, divisions and reissues based thereof, and any corresponding foreign patent applications, including International PCT Application(s).

From the currently issues patents, this technology appears to be well protected both in the U.S. and internationally for a significant period of time based on the relatively recent issue dates for all four patents.

The Company is also an active partner with JHU for the patent strategy and the preparation, filing, prosecution and maintenance of the patents and has contributed its share of the expenses for recent filings during February 2001.

Issued US Patents

PATENT #	ISSUED	# OF CLAIMS	MAJOR SUBJECT MATTER
5,824,490	October 20, 1998	3	Method for detecting prostate cancer using a reagent that binds prostate cancer-1protein; Includes specific claims for monoclonal and polyclonal antibodies to PC-1.
5,849,509	December 15, 1998	3	NMP's that are characterized by a defined expression in tissue are provided. These 14 NMPs are useful markers in diagnosing and monitoring normal, benign and cancerous prostates. Also provided are substantially purified polypeptides and nucleotide sequences encoding the NMPs of the invention.
5,874,539	February 23, 1999	3	Antibodies directed to NMP's are provided. Such antibodies are useful markers in diagnosing and monitoring the stage of malignancy of a cell.
6,030,793	February 29, 2000	7	A method for detecting a cell proliferation disorder in a subject, said method comprising contacting cells with an antibody which specifically binds to a nuclear matrix protein from the subject and detecting binding of the antibody to the nuclear matrix protein, wherein the nuclear matrix protein is selected from the group.

Pending Applications

A fifth patent is pending and claims have been allowed for nucleic acid applications associated with PC-1. The Company plans on further expanding and strengthening its patent portfolio.

Company Strategy

Tessera Diagnostics is focused on a strategy that will enable it to take its prostate cancer detection products to market during the second year after funding. The Company will then leverage its technology and intellectual property assets and work together with other companies in drug discovery, advanced cancer-imaging devices, and therapeutics.

Market a Cancer 'Research Only' Kit: The Company believes it can generate revenues within 14 months of funding by marketing a Xanthus™ Prostate Cancer Research Kit to the cancer research community. This kit does not require FDA approval for marketing.

Obtain FDA 510(k) Approval for Diagnostic Product: An FDA 510(k) application will be in process by the end of year one to sell the Xanthus™ Prostate Cancer Diagnostic Kit to the clinical laboratory market in 2003. This same FDA approval process will be repeated with the Xanthus™ Prostate Cancer Home Test Kit for the mass market in 2004.

Xanthus™ Prostate Cancer Licensing Agreements: In addition to selling products, Tessera believes there is an opportunity to license its technologies to pharmaceutical and biotechnology companies. Additional revenue will be possible in licensing and royalty fees as the Company ramps up the distribution channels for its FDA approved product.

Sales and Marketing of Xanthus™ Prostate Cancer Kits: The Company plans on introducing its product to targeted groups of physicians, cancer research facilities, and clinicians who currently use the PSA test, as well as gain the support of the American Medical Association, in order to build a solid reference base prior to product launch. Presentations will be made at key conferences and trade shows in order to expand awareness about the Company's diagnostic products. Business development personnel will also sign contracts with both domestic and international distributors to ensure a successful product launch.

Use of Proceeds

The funds raised in the current offering will be used to:

- Hire Scientific and Management Teams
- Validate NMP technology Prepare for 510(k) Application with the FDA
- Monoclonal anti-body manufacturing
- Negotiate contracts for Xanthus™ Prostate Cancer Research Kits
- Purchase and lease necessary equipment
- Continue payments for patent and legal fees
- Deliver a Xanthus™ Prostate Cancer Research Kit to the research market in 2002

Establishing Shareholder Value

Following the validation of the technology, Tessera Diagnostics expects to accomplish the following steps in order to maximize shareholder value:

- File for 510(k) approval with FDA
- Establish the marketing/distribution system
- Negotiate for contract manufacturing of monoclonal antibodies
- Take appropriate steps to provide liquidity option for the company's shareholders

Management, Board, and Advisors

Management

Robert V. Masterson, Ph.D. – *Founder, President & CEO*

Dr. Robert Masterson founded Tessera Diagnostics in order to develop and bring new cancer diagnostic tests to the medical marketplace. He has a distinguished 21-year research and development background in biotechnology and has been Vice President of Research & Development for Q-pharma, Inc. (Edmonds, WA) and Skin Biology, Inc. (Bellevue, WA). He has invented new, patented biotechnology products, and has experience with FDA approval processes for drug and diagnostic products. Most recently, he was Scientific Director at Genelex Corporation (Seattle, WA), a nationally recognized DNA testing facility. Dr. Masterson was formerly a Group Leader at the Max Planck Institute (Cologne, Germany) and was in charge of a molecular and cellular biology research group. Dr. Masterson has a Ph.D. in Molecular, Cellular & Developmental Biology from Iowa State University (1984) and has a B.S. in Microbiology from University of Washington (1980).

Melody Ulland – *Founder, Vice President Corporate Development*

Ms. Ulland brings over 25 years experience in sales and sales/operations management to this position. She has been building high tech start-ups for the past 18 years and has been part of the initial management teams for companies such as ComputerLand, Informix Corporation, Sybase, Inc, and Electronics for Imaging. Just prior to Tessera, she held the position of Chief Operating Officer at Inologic, Inc., a Seattle-based biotechnology company working on novel therapies for Cystic Fibrosis, psoriasis, diarrhea, and asthma. She had also served as Vice President of Services at Tidemark Computer Systems, Inc. Tidemark received the Washington State Award for the 14th Fastest Growing Privately–held Software Company for this time period along with recognition as the 21st fastest-growing technology company in the Deloitte & Touche Fast-50, for its 783% revenue growth between 1995 and 1999, setting up Tidemark for a successful acquisition by Acella, Inc. Ms. Ulland attended Fairview Hospital School of Nursing in Minneapolis.

Board of Directors

Tessera Diagnostics has an elected board of directors that consists of one Company Officer and four non-employee members.

Joseph S. Baba - *Board Member*

Currently, Mr. Baba is Chief Operating Officer of Sun Spots, Inc., Bellevue, WA. In the last four years, Mr. Baba has successfully raised seed and expansion capital for two start-up firms in the Seattle area, Receptagen, Ltd., and Q-pharma, Inc., of which he was founder, president and chief executive officer. He has held positions with leading financial institutions including Geneva Securities, Prudential Securities, and David A. Noyes & Company. Leveraging off eleven years in the financial markets, Mr. Baba brings a unique ability to Tessera by combining his investor network with his background in technology management. Mr. Baba received his B.S. in Biology in 1977 from Northern Illinois University.

H. Raymond Cairncross – *Board Member/Founder*

Mr. Cairncross has over 25 years of experience as a practicing attorney, founder, Chairman, CEO, director of and counsel to high-tech and other companies. Ray formed the Seattle law firm of Cairncross & Hempelmann, specializing in business planning, corporate finance, and commercial transactions. As the firm's only Managing Partner, he developed and maintained a

full practice focused on business planning, strategy, major commercial transactions, and financings. His first role as a founder was for Horizon Airlines where he was General Counsel and business strategist, negotiating the acquisition of Air Oregon and Cascade Airlines, leading to the sale of Horizon to Alaska Airlines.

Utilizing his legal and business expertise, Ray founded several high-tech companies including Ostex International, Inc., where he served as Chairman and CEO. This Seattle biotechnology company was based upon an innovative technology transfer arrangement with the University of Washington. He successfully negotiated complex domestic and international licensing and partnership arrangements, and equity and non-dilutive financings, taking Ostex public in the mid-1990's. Ray co-founded Omeros Medical Systems, Inc., a company with a successful pharmaceutical platform technology that delivers analgesic, anti-inflammatory, anti-spasm and/or anti-restenosis agents directly to the surgical site during arthroscopic, urologic, cardiovascular and general surgical procedures. As with Ostex, Omeros has developed a strong intellectual property position and patent portfolio, along with an effective regulatory strategy.

Ray is now a Managing Partner of Sawtooth Ventures LP, a venture capital fund formed to focus on investments in early stage companies in the Intermountain and Pacific Northwest regions and to counsel emerging and growing companies with regard to business development based on his considerable legal and business experience.

Gary H. Frank- *Board Member*

Mr. Frank has a distinguished business career that spans over 30 years. He was previously the president of Performance USA, Inc. (Dallas, TX), formerly Sunrise Medical Corporation, where he was responsible for operations and profits of the company with 100 employees and annual sales of $10 MM. Mr. Frank held executive positions at Quinton Instrument Co (Seattle, WA) where he was responsible for the sales and marketing of medical devices for heart-related applications. In addition, Mr. Frank held sales management positions at Duo-Fast Corp (Franklin Park, IL) and Johnson & Johnson Co (Brunswick, NJ) where he was responsible for marketing surgical medical products. He is a principal at Global Ventures, LLC, (Bellevue, WA) and works with companies to strengthen and enable their business strategies by raising capital, mergers and acquisitions, finding upper level management personnel and executing exit strategies. Recent companies Mr. Frank has assisted has included WomansWellbeing, Inc. (Redmond, WA), Q-pharma, Inc. and Key Computer Systems, Inc (Seattle, WA). Mr. Frank has been actively involved in helping Tessera Diagnostics raise its seed round financing. He majored in Business Administration at Marquette University.

Robert V. Masterson, Ph.D. (*Board Chairman; see above*)

Lee M. Parker - *Board Member*

Mr. Parker has extensive expertise in all phases of investor relations and corporate communications. He created the investor relations function for four IPO companies: First FarWest Corp. in 1974, Entre' Computer Centers in 1984, CellPro in 1992, and Cell Therapeutics in 1997, as well as NYSE-listed, TransTechnology Corp. in 1988. He has a broad background in the financial services industry and has been a stockbroker, a securities analyst, a portfolio manager and a financial newsletter editor. Most recently, he was Group Vice President of the Health Technology Practice for GCI Group, Inc. (San Francisco, CA), a subsidiary of Grey Global, the international advertising, marketing and public relations firm. He also held the position of Director of the Washington Biotechnology & Biomedical Association from 1993 through 1999 and is a past Chairman. Mr. Parker received his B.S. and M. S. in Biology from the University of Oregon and an M.A. in Biology from Harvard University

To Be Named: Other board members will include top medical scientists and business leaders who are committed to helping guide the Company to a successful outcome.

Scientific Advisory Board

Robert Getzenberg, Ph.D.

The Company is honored to have as a Scientific Advisory Board member, a key prostate cancer researcher and an inventor of the Johns Hopkins NMP prostate cancer detection technology. Dr. Getzenberg's research focus is on understanding the role of the nuclear matrix in cancer pathobiology and in developing cancer biomarkers. He holds several patents along with a large number of pending applications and is the author of many publications related to the fields of prostate and bladder cancer. He is currently Director of Urological Research of the Department of Urology and a Co-Director of the Prostate and Urologic Cancer Center of the University of Pittsburgh Cancer Institute, Associate Professor of Urology, Pathology, and Pharmacology at the University of Pittsburgh School of Medicine, and Associate Director of the Cellular and Molecular Pathology Graduate Program. Dr. Getzenberg received his B.A. (High Honors) in Microbiology from Rutgers College and completed his Ph.D. at The Johns Hopkins University School of Medicine where he worked under the tutelage of Dr. Donald S. Coffey. He completed a post-doctoral fellowship focused on the role of tumor suppressor genes in cancer, centering on prostate cancer, at the Yale University School of Medicine under the guidance of Dr. Eric R. Fearon who along with Dr. Bert Vogelstein at Johns Hopkins has identified many of the genetic marker characteristics of the cancer pathway.

Gregory Mahairas, Ph.D.

Dr. Mahairas has unique executive leadership experience in the organization, implementation, and execution of world-class high-throughput sequencing and informatics operations. Dr. Mahairas established, with Dr. Leroy Hood, the High Throughput Sequencing Center (HTSC) at the University of Washington, one of the top five genomics centers in the world, and served as Director. As Director of the HTSC, Dr. Mahairas managed over 230 personnel and an annual budget of over $50 million. Under Dr. Mahairas direction, the HTSC completed numerous large-scale sequencing projects, including a rough draft of the entire rice genome, extensive sequence (20%) surveys of the corn and soybean genomes, and several complete microbial genomes. Dr. Mahairas has extensive experience in the assembly and management of technologies and teams for DNA sequencing, cloning and library construction, research process automation, and bioinformatics. In addition to the HTSC, he has organized several academic and industrial laboratories. Dr. Mahairas is a recipient of a National Research Service Award, and has published numerous peer-reviewed scientific articles in the areas of DNA sequencing technology, genomics, microbial genetics, and immunology. Dr. Mahairas received a B.S. in Biology and Microbiology from the University of Wisconsin, and an M.S. in Microbiology and a Ph.D. in Immunobiology from Iowa State University.

To Be Named: The Company plans on inviting other top scientists with expertise in bringing diagnostic tests to the medical marketplace to the Scientific Advisory Board (SAB).

Business Advisory Board

Eric P. Meyer

Mr. Meyer most recently served as Senior Vice President for Optiva Corporation, makers of the Sonicare™ sonic toothbrush. As Optiva's first sales and marketing executive, Mr. Meyer shaped

and executed the company's marketing strategy, resulting in Sonicare becoming the #1 dollar share brand and the product recommended and personally used by more dentists. In 1997 Optiva became Inc. Magazine's #1 fastest growing privately-held company. In addition to sales and marketing functions, during his nine year tenure at Optiva Mr. Meyer held responsibility for initiating international business, establishing a business development function, and leading research and development (following the successful sale of Optiva to Philips Electronics in 2000). Previously Mr. Meyer held senior marketing and sales positions with LifeScan, a Johnson & Johnson company that manufactures the leading blood glucose monitor. Mr. Meyer is currently on the Board of Directors of Advanced H2O of Bellevue and has previously served on other Boards. Mr. Meyer holds B.S. in engineering and Bachelor of General Studies degrees from the University of Michigan, and an MBA from Stanford University.

Joseph Ulatoski

Mr. Ulatoski recently retired from the Frank Russell Company (Tacoma, WA) where he held the position of Director. He was in charge of the Company's 20/20 Program for International Investments. The Frank Russell Company is the world's largest retirement fund investment company and has over $7 trillion dollars in assets. Mr. Ulatoski has extensive business experience and has many contacts in the investment community in the United States and throughout the world. He has served as a board member of a number of successful companies. Mr. Ulatoski is a retired United States Brigadier General.

To Be Named: The Company plans on inviting additional business leaders that can assist management in developing a firm business foundation.

Glossary

Aggressive: Rapidly growing when said of a tumor.

Baseline Level: The average of several PSA readings from blood samples that are screened for prostate cancer.

Benign: Not cancerous; does not invade nearby tissue or spread to other parts of the body.

Biopsy: The removal of a sample tissue for examination under a microscope to check for cancer cells.

Bladder: The hollow organ that stores urine.

Cancer: A term for diseases of which abnormal cells divide without control.

Clinical Trials: Research studies that involve people. Each study is designed to answer scientific questions and to find better ways to prevent or treat disease.

Digital Rectal Exam (DRE): A procedure in which the doctor inserts a gloved finger into the rectum to examine the rectum and prostate by feel.

Gleason Grade: A number from 1 to 5 indicating how different a sample of prostate tissue looks when compared to a normal prostate tissue.

Hormone Therapy: Treatment that prevents cancer cells from getting the hormones they need to grow. Treatment may involve removing the testicles or giving female hormones or other drugs to prevent the production of male hormones.

Imaging Tests: Tests that produce pictures of the inside of the body to help diagnose and stage prostate cancer.

Malignant: Cancer can spread to other parts of the body.

Monoclonal: -Used of a cell line whether within the body or in culture to indicate that it has a single clonal origin. Monoclonal antibodies are produced by a single clone of hybridoma cells, and are therefore a single species of an antibody molecule.

Monoclonal antibodies (MAbs or MOABs): work on cancer cells in the same way natural antibodies work, by identifying and binding to the target cells. They then alert other cells in the immune system to the presence of the cancer cells. MAbs are specific for a particular antigen - one designed for a B-cell lymphoma will not work on cells for ovarian cancer cells.

Nuclear Matrix Proteins (NMP): A class of proteins responsible for the shape and organization of the nucleus within a cell. This includes the nuclear membrane, granular nuclear matrix, and nucleolar proteins. NMPs are useful biomarkers for prostate, bladder, breast and other cancers.

Pathologist: A doctor who identifies diseases by studying cells and tissues under the microscope.

Prostate: A male sex gland; it produces fluid that forms part of semen.

Prostate-specific-antigen (PSA): A protein produced by the prostate gland and found in low levels in the blood. Its level goes up in the blood of some men who have prostate cancer.

Rectal Exam: A procedure in which a doctor inserts a gloved, lubricated finger into the rectum and feels the prostate through the wall of the rectum to check for hard or lumpy areas. (See DRE)

Recur or Relapse: To return after cancer treatment has been completed.

Staging: Doing exams or tests to learn the extent of a cancer, especially whether it has spread from its original site to other parts of the body.

Tumor: An abnormal tissue. Can be benign or malignant.

Urologist: A doctor who specializes in diseases of the urinary organs in females and the urinary and sex organs in males.

Appendix A – Financials

	Year 1	Year 2	Year 3	Year 4
REVENUES:				
Xanthus Research Kit	185,000	1,500,150	3,600,000	6,250,000
Xanthus Diagnostic Kit	0	547,500	10,950,000	42,210,000
Xanthus Licensing Agreement	0	0	1,400,000	3,500,000
Xanthus Home Test Kit	0	0	1,046,880	18,250,000
International Sales	0	325,000	4,050,000	21,700,000
Total Revenue	185,000	2,372,650	21,046,880	91,910,000
EXPENSES:				
Lab Personnel Salaries/Benefits	192,380	218,722	376,340	294,605
Other Personnel Salaries/Benefits	708,394	1,374,134	2,250,913	3,251,074
Advertising	3000	100,000	2,000,000	8,000,000
Audit/Accounting Fees	0	70,000	80,000	100,000
Business Consulting	60,000	95,000	165,000	210,000
Business Taxes	3,700	47,453	420,938	1,838,200
Distribution fee	0	0	209,376	3,650,000
Dues and Subscriptions	3,400	4,750	5,400	6,700
Entertainment (Corporate)	9,240	14,360	18,520	24,760
Equipment Leases Payments	93,078	173,478	274,728	427,008
Furniture Leases Payments	13,140	19,440	22,680	32,760
Insurance	8,000	16,000	30,000	50,000
Legal Fees	86,834	118,500	170,000	250,000
Licensing fees	10,000	150,000	150,000	150,000
MAb Manufacturer	404,600	923,077	1,064,753	11,402,488
Marketing Collateral/Packaging	37,500	75,000	157,500	750,000
Misc.	8,400	12,000	18,000	25,000
Moving	0	0	7,500	30,000
Organization Costs	30,000	0	0	0
Patent fees	3,000	50,000	100,000	150,000
Recruiting fees	0	24,000	40,000	140,000
Rent	143,000	240,000	360,000	500,000
Royalties	5,550	71,180	631,406	2,757,300
Sales Bonuses	0	61,430	436,500	1,453,800
Supplies	31,400	120,000	125,000	150,000
Support	15,933	28,938	44,611	68,965
Telephone	8,000	14,800	48,000	60,000
Tradeshows	35,000	160,000	240,000	360,000
Training and Seminars	12,000	17,333	36,000	50,000
Travel	9,000	40,000	125,000	250,000
Total Expenses	1,934,549	4,239,594	9,608,165	36,432,660
Net Income (Loss) Before Taxes	(1,749,549)	(1,866,944)	11,438,715	55,477,340
Headcount	12	18	26	38
% of Global Market	0.003%	0.042%	0.376%	1.641%

Appendix B – References

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